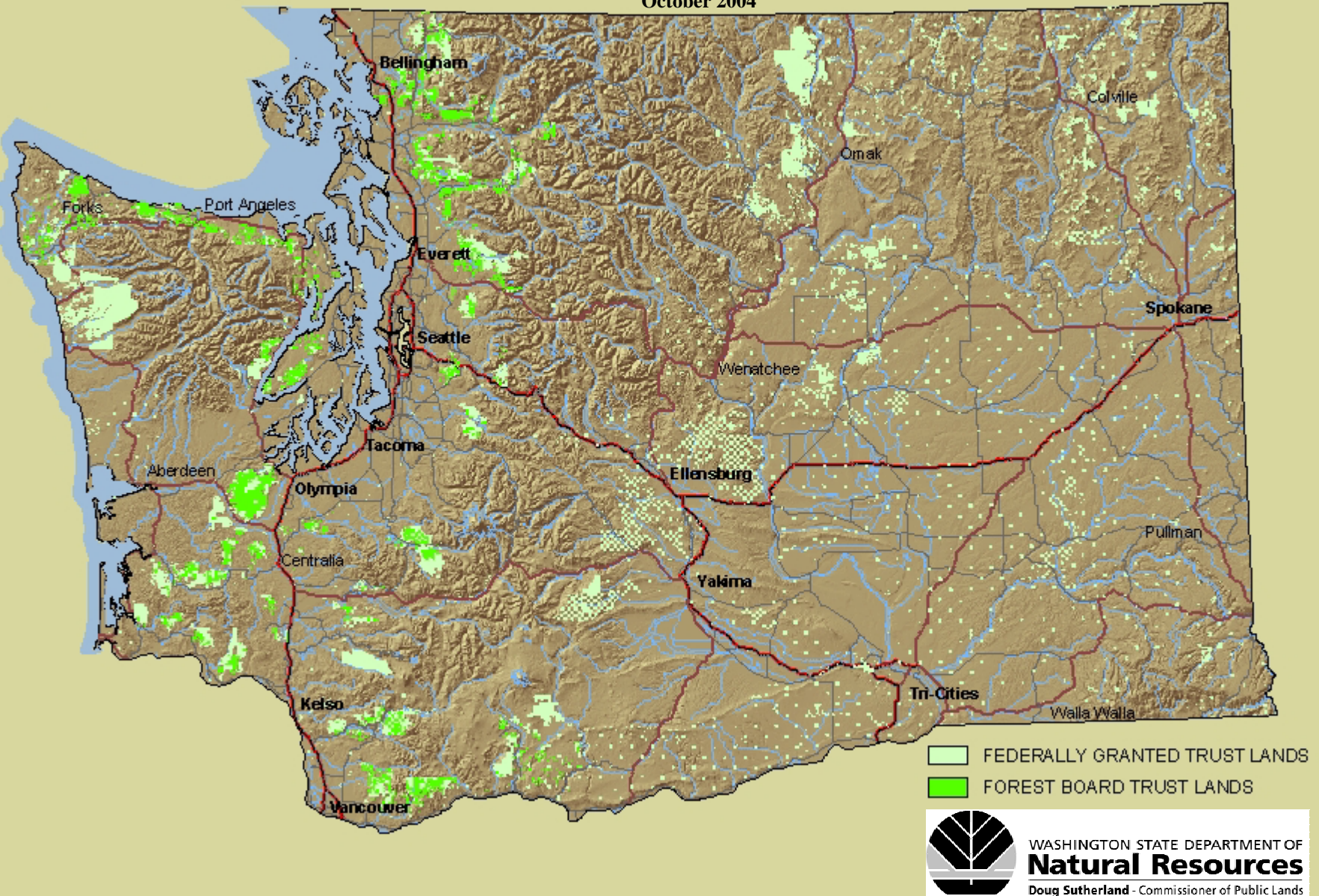


Independent Review: Effectiveness & Efficiency

October 2004



Independent Review: Effectiveness and Efficiency

Are there changes that would result in improved revenues or cost savings sufficient to fund current management and the implementation of the Board of Natural Resources' directions?

Independent Review: Effectiveness and Efficiency

Revenues:

Are there additional actions that could be taken to further expand net revenues?

Expenditures:

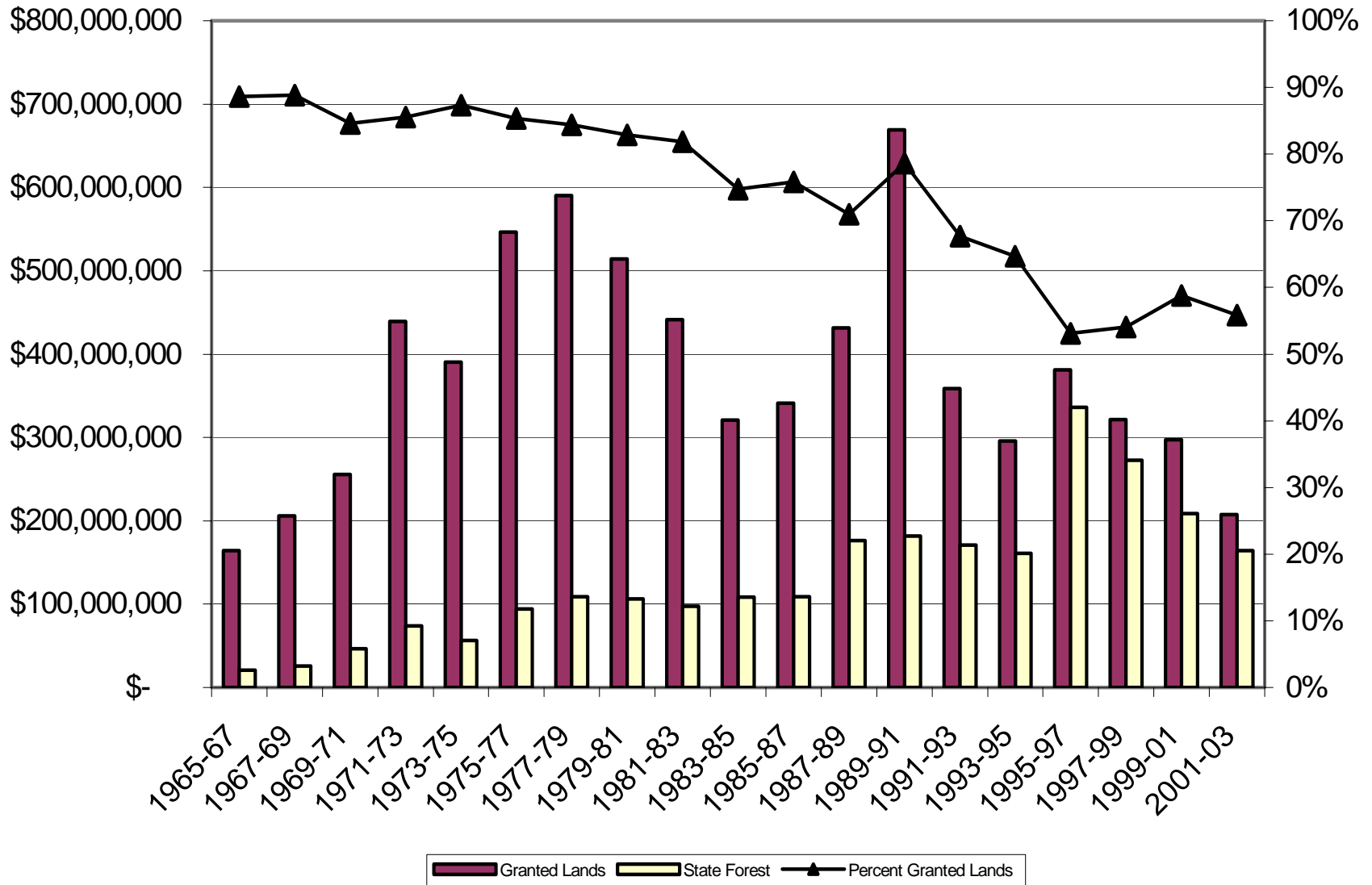
Are there significant changes that should be made to reduce expenditures while maintaining legal mandates, other trust duties, while meeting Board of Natural Resources' policy direction?

Independent Review: Effectiveness and Efficiency

- **Key Assumption: the fundamental legal and contractual relationships that govern trust land management**
- **Key Assumption: the land, as a large multi-billion dollar fixed asset base, remains in public ownership**
- **Key Assumption: the beneficiaries will provide important questions that will help the Committee develop findings of facts and recommendations for the Commissioner of Public Lands**

Total Revenue

Changing Nature of the Revenue Sources



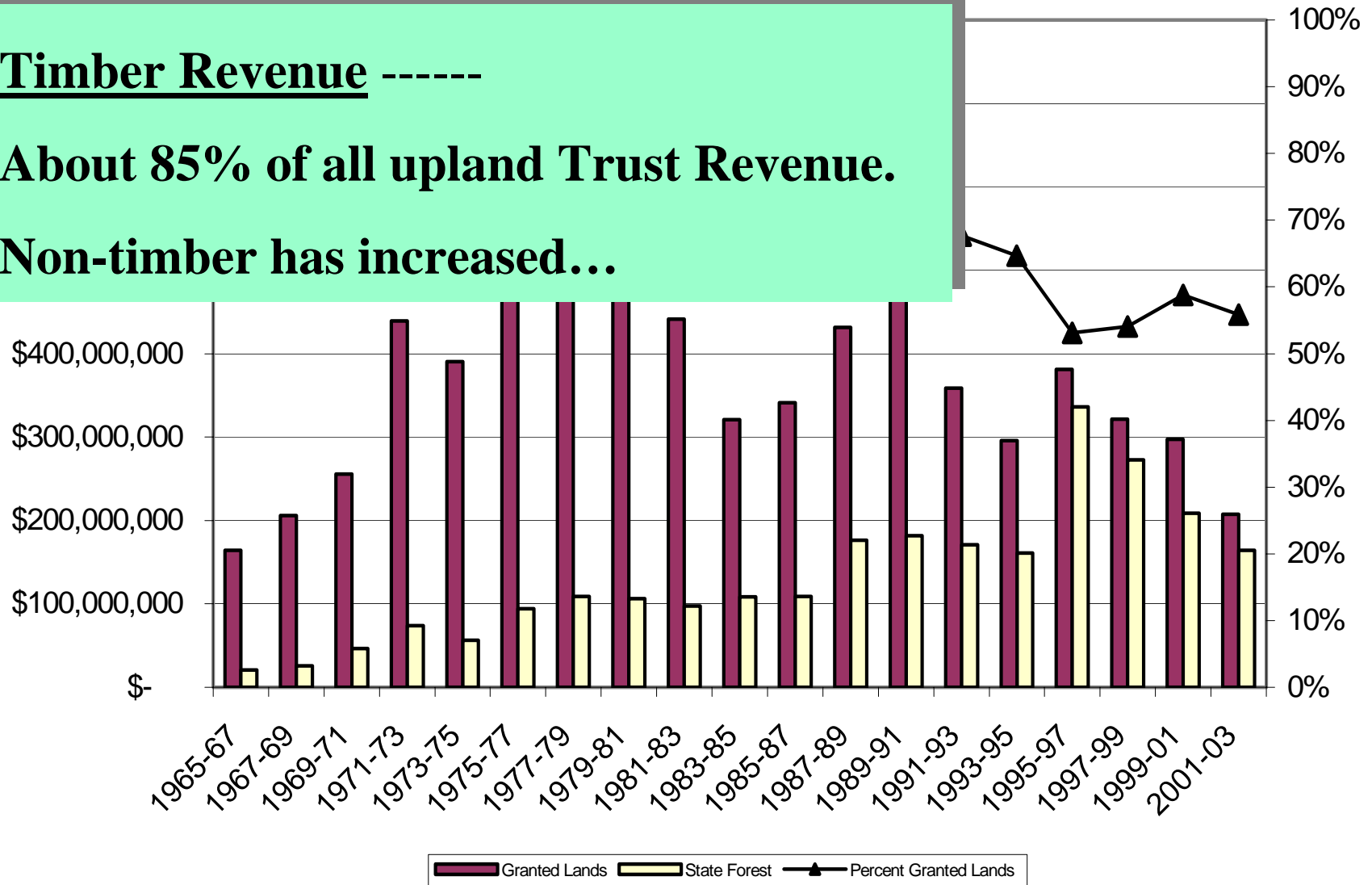
Total Revenue

Changing Nature of the Revenue Sources

Timber Revenue -----

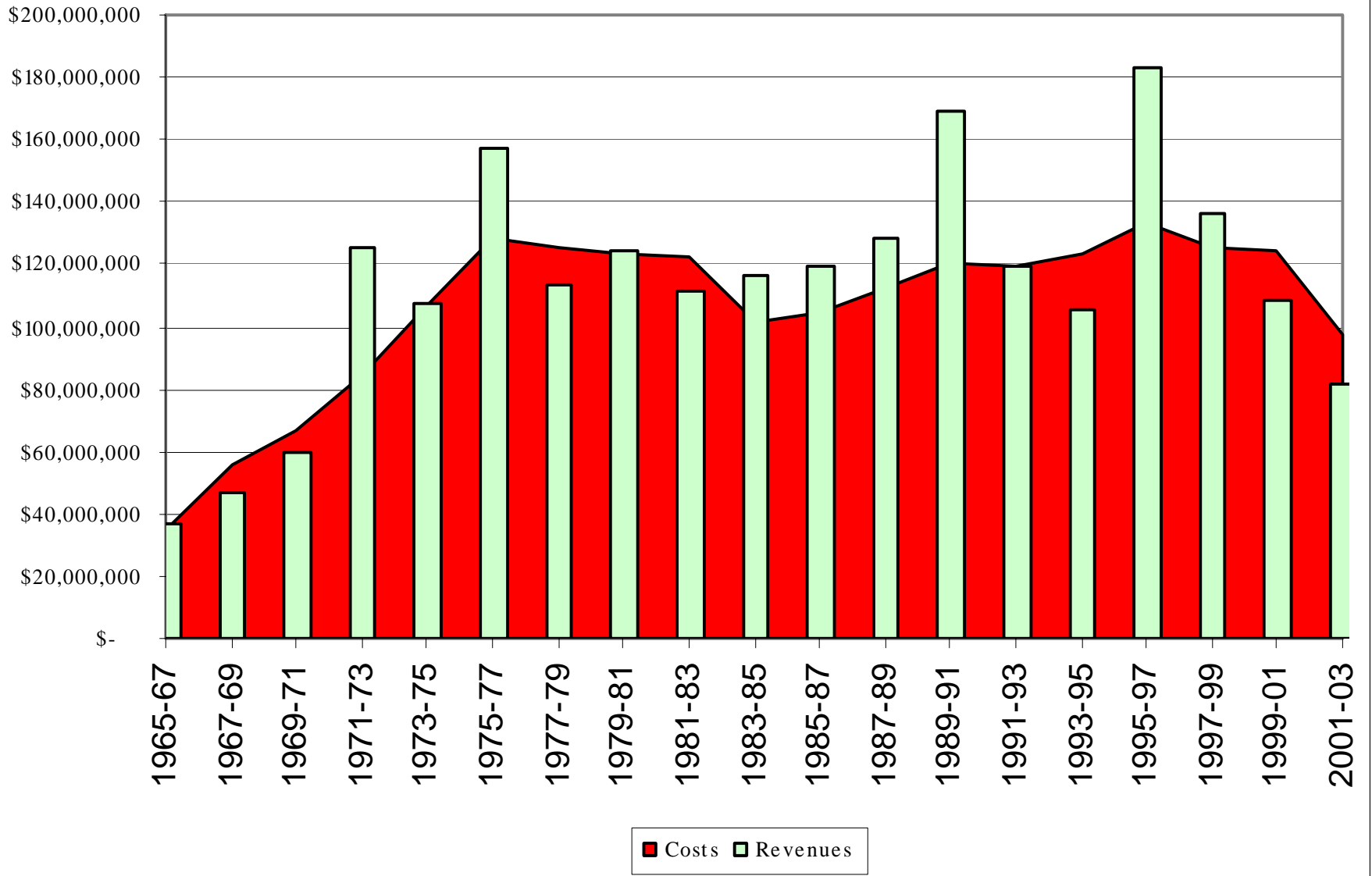
About 85% of all upland Trust Revenue.

Non-timber has increased...



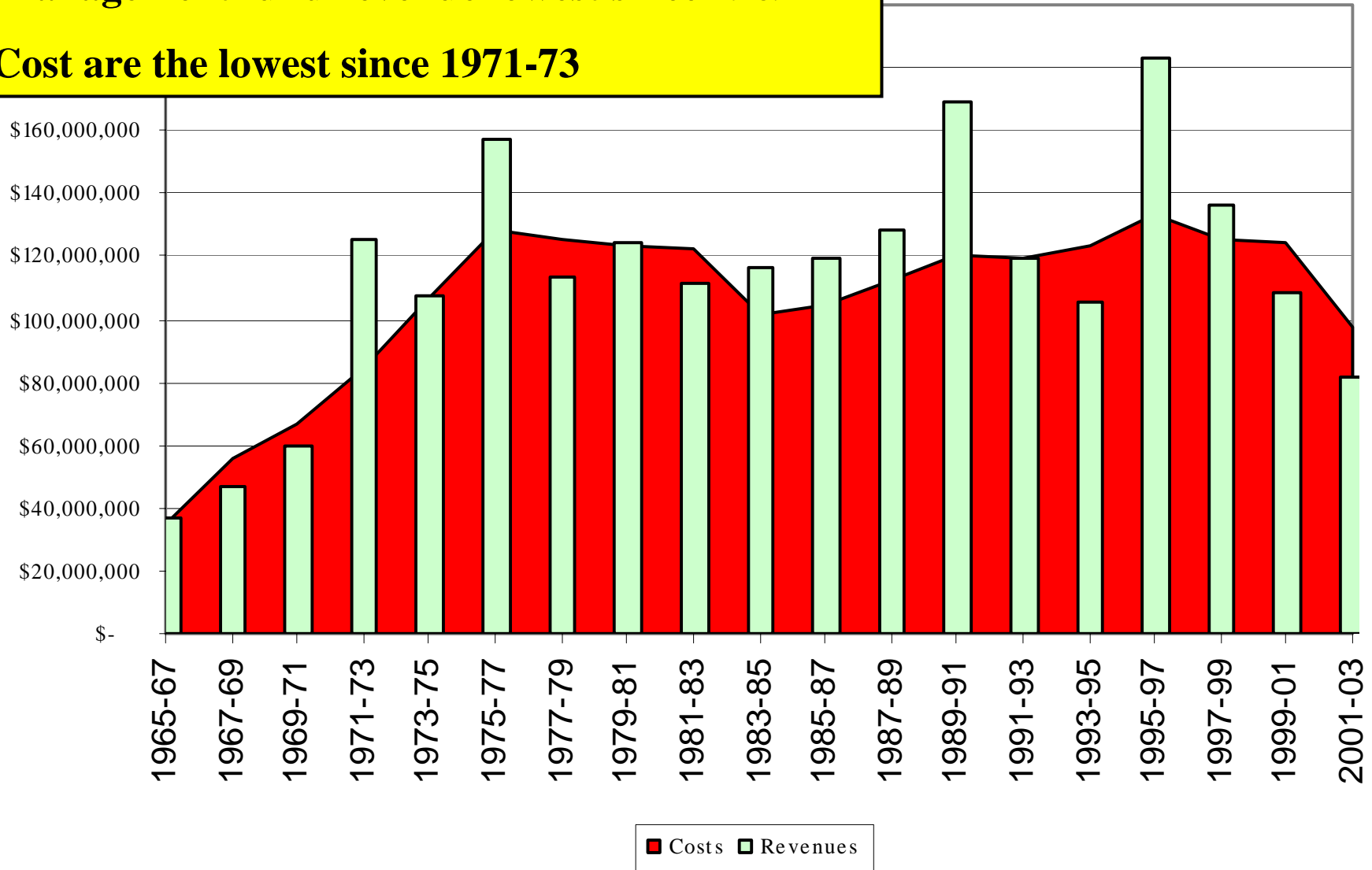
Management Fund Expenditures & Revenue

In 2003 \$'s



Management Fund Expenditures & Revenue

- Management fund revenue lowest since 1969-71
- Cost are the lowest since 1971-73



Expenditure Controls & Increased Efficiency

- **State Lands employees reduced 24% from 2001**
- **Merged two Region Offices, biennially saving about \$1.5 million**
- **Timber Sales labor productivity increases forty percent**
- **27% expenditure reduction** compared to 1995-97

The Issues

- The costs of business in this century are currently in excess of 25%
- Whether we continue as we have been or move to the new Sustainable Forestry levels, the management account fund balances decline and quickly go negative
- To preclude a negative fund balance, expenditures would be substantially reduced, triggering an abrupt reduction revenue & land management that spirals downward
- Material reduction of revenue to the beneficiaries and the State General Fund

The Issues

- **Additional investments, from whatever source, could forestall the decline, and**
- **Net returns to the beneficiaries could substantially increase, even if the investments came from an increase in the management fund deductions from their 1971 levels**

The Funding Gap

There is a well-identified difference between the costs of doing business now and the revenue to fund investments that bring benefits both today and tomorrow.

The magnitude of the gap will continue to increase unless one or more elements change.

The Funding Gap: *The Magnitude*

RMCA variability

Factors: lower initial fund balance and lower average value of timber and other factors. However, the federal grants are the most diversified and receive most all of the non-timber revenue.

FDA variability

Factors: larger initial fund balance and higher average value of timber but with the lowest asset diversification

Cash Flow based on the Sustainable Harvest Fund Balance Analyses	Net Effect RMCA (Shortfall)	Net Effect FDA Surplus/ (Shortfall)
6-30-03		
	(1,865.5)	12,150.0
6-30-05		
	(25,292.0)	7,339.0
6-30-07		
	(19,322.5)	2,947.7
6-30-09		
	(12,218.6)	(6,414.4)
6-30-11		
	(12,605.5)	(10,601.6)
6-30-13		
	(12,541.6)	(10,586.0)
6-30-15		

What is at stake?

- **The promise of the Board's Sustainable Forestry decisions – ensuring a healthy stream of revenue through management investments**
- **Five-fold increase in older forest habitat;**
- **Improved stream ecology that provides better habitat for salmon and other fish.**

What is at stake?

<u>Gross Revenue</u>	No Action	Board Action 9/04	Difference: Board - No Action
First Decade Total Revenue	\$ 1.66 billion	\$ 2.08 billion	+ \$ 0.42 billion
Total Revenue through 2067	\$ 9.85 billion	\$ 12.84 billion	+ \$ 2.99 billion

Active Management makes a difference....
But it has a cost.....

DNR's objective is to increase net returns to the beneficiaries

while providing the environmental benefits identified in the Habitat Conservation Plan, the Forest Resource Plan and

the newer policies and directions established by Board's sustainable harvest decision.

The Process

